21.05 Contributions

Contributions of Services

Donations of services are normally not recorded. However, when an organization receives donations of **professional services** that it normally would have compensated (**essential services**), the service provider is helping to defray expenses of the NPO and should be reported as a donor.

Essential if:

- Services create or enhance a non-financial asset (inventory, land, building) - OR
- The services require specialized skills (doctor, lawyer, accountant)

For example, if a hospital receives *donated time* from retired nurses that enables them to avoid hiring and paying additional workers, and the estimated amount that time would have cost the hospital is $30,000, the following entry is made:

Expenses (no DR)	30,000	
Contribution Revenue (no DR)		30,000

Notice that the donation increases the nursing expense as well as contribution revenue, and is reported in net assets without donor restrictions, since services that have been provided cannot be withdrawn later.

NPOs also frequently receive donations of services from volunteers providing **unskilled services** that it would **not** have contracted to obtain had they not been donated. These are excluded from the financial reporting since they do not assist the organization in defraying its expenses.

In some cases, services may be provided by the employees of an affiliated NPO. The same basic rule applies as to whether or not to recognize those services in that essential services are recognized and nonessential ones are not. The amount at which they will be recorded will generally be the affiliated NPO's cost. If, however, the cost is significantly higher or lower than the fair value of the services, they may be reported at either the affiliated NPO's cost or the fair value.

For example, if volunteers come regularly to a hospital to visit with lonely patients and read to them, they are certainly performing a service that is valuable and appreciated. Nevertheless, if the hospital does not provide such visitations on a paid contract basis with anyone, then these donated services are not considered relevant in evaluating the NPO itself, and no entry is made.

Contributions of Property

Contributions of property are normally reported as revenues in the same manner as contributions of cash. They may be reported as net assets with or without donor restrictions, depending on the conditions of the contribution.

A special rule may be applied, however, to certain donations of **art, artifacts, or antiques.** If the NPO intends to use these items *for display* or research purposes only, the organizations cares for it themselves and if sold, the proceeds must be reinvested in other collectibles, then it is permitted to exclude the donation from its F/S entirely. This avoids having the organization appear to possess great wealth (and, thus, not need public support) when it is holding assets that cannot be used to finance the operations of the NPO. If they don't meet the above requirements, then they would recognize both an asset and a revenue.

If the NPO reserves the right to sell the asset, however, it will have to include its value on the F/S and report a donation unless the proceeds of any sale are strictly limited to the purchase of replacement art, artifacts, or antiques. They may, however, show it as net assets with donor restrictions.

If they receive **donated materials**, they will also record both an asset and a support revenue. If, however, the materials are "pass through" (donated clothing), then they would debit an expense and credit contribution revenue without donor restrictions.

Gifts in kind are noncash contributions to a not-for-profit organization. They are recorded at FMV.

Marketable Securities

NPO's are required to use fair value accounting for most equity and debt investments and report realized and unrealized gains and losses directly in the statement of activities. (ASC 958-320-35)

- Doesn't cover Equity Method securities

Pledges

Unconditional promises to give to an NPO may be accrued as receivables (net of allowance) by the organization in the period in which they are made. In doing so, however, the NPO should establish an appropriate **allowance for uncollectibles**, and treat pledges that aren't due to be paid until a future period as time-restricted donations. The pledges are *recorded at PV* for annuities or amounts not expected to be collected for over a year. Cash contributions, however, are a revenue or gain when received.

Conditional promise to give (eg, matching) are pledges that contain donor-imposed conditions that represent a barrier that must be overcome as well as a right of release from obligation. Such promises will become payable to the entity when the donor-imposed conditions have been met. As a result, conditional promises to give are not recognized as revenues until they become unconditional. This occurs when the conditions on which the promise depends have been substantially met.

Conditional contribution – Funds received before donor-imposed conditions are substantially met are recognized as liabilities until such time as the promises become unconditional.

Determining Whether a Contribution is Conditional

A contribution is considered **conditional** only if both of the following are true (ie, otherwise, the contribution is considered unconditional):

- There is a barrier that must be overcome (eg, measurable performance-related requirements, such as a specified level of service, a specific output/outcome, matching, or other events outside the control of the recipient, etc.), **and**
- The donor has a right to the return of assets transferred or a right to be released from their obligation to transfer assets.

Determining Whether a Contribution is Restricted

If a contribution is determined to be unconditional, one must then determine if it is restricted or unrestricted. That's right—a donor-imposed condition is not the same as a donor-imposed restriction.

- As alluded to above, a **donor-imposed condition** depends on whether there is *a barrier that must be overcome* before the recipient is entitled to the assets, and whether the contributor has a *right to the return of assets* transferred *or the right to be released* from its obligation to transfer assets. For example, a donor pledges to match donations received if the donee first raises $10,000 from other donors.
- A **donor-imposed restriction**, in contrast, merely *limits the use* of the contribution; it does not affect whether the recipient is entitled to the contribution. An example of a donor-imposed restriction might be that a contribution can only be used to buy shoes for needy children.

Assume that an Independence Day pledge drive by the NPO in 20X1 has netted promises totaling $20,000, with half of the pledge due by the end of the current year and the remainder due by the end of 20X2. Based on experience, the organization expects 10% of pledges not to be honored. The entry to be recorded when pledges are received is:

Pledges receivable (at PV)	20,000	
Allowance for uncollectible pledges		2,000
Revenues (no DR)		9,000
Revenues (DR)		9,000

Assuming collection is as expected, the pledges collected in 20X2 effectively eliminate the time restriction:

12/31/X2	Net assets released (DR)	9,000	
	Net assets released (no DR)		9,000

Agent or Trustee (like custodial fund – eg, United Way)

If collect money for others, such as a foundation, it can be considered either contribution revenue or a liability at FMV. (ASC 958-605) It is considered a **revenue** if either:

- They have variance power over the donation to redirect the money (OR)

- The beneficiary of the donation is financially related (ongoing economic interest in the net assets of the other).

Cash	x	
Contribution Revenue		x

- If don't meet Either of the two above, record as a **liability.**

Cash	x	
Refundable advance (liability)		x

Example: donor provides funds not just for disaster relief, but to purchase household goods for a specific family affected by the disaster. In this case, the NPO is acting merely as an intermediary and would recognize a liability, not contribution revenue.

Depreciation

ASC 958 requires all not-for-profit organizations to recognize depreciation in general purpose external F/S using the *same criteria* in allocating the depreciable cost of fixed assets over their estimated useful lives as commercial enterprises.

Colleges & Universities

Private colleges and universities are subject to the same guidance as other not-for-profit organizations. Some special issues that relate to colleges and universities include:

- Tuition remissions & scholarships are revenue (if go to school, it's a revenue)
- Refunds – not revenues

Cash	12,000	
Scholarship expense	10,000	
Tuition remission	8,000	
Tuition revenue		30,000